

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name VILLAGE OF MERRILL	County SAGINAW
Audit Date 2/28/05	Opinion Date 6/23/05	Date Accountant Report Submitted to State: 8/29/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

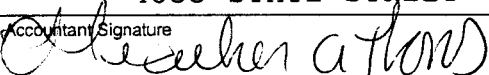
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) GARDNER, PROVENZANO, SCHAUMAN & THOMAS, P.C.			
Street Address 4855 STATE STREET	City SAGINAW	State MI	ZIP 48603
Accountant Signature  HEATHER A. THOMAS, CPA		Date 8-29-05	

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VILLAGE OF MERRILL
VILLAGE COUNCIL
FOR THE YEAR ENDED FEBRUARY 28, 2005

Officers

David Novak	President
Duane Reichard	Treasurer
Teresa DeBeau	Clerk
Thos. J. Mayan	Street Administrator

Trustees

Jackie Novak
Tina Eddy
Norma Brown
Thos. J. Mayan
Mary Castellanos
Connie LaFleur



Gardner | Provenzano Schauman & Thomas

CERTIFIED PUBLIC ACCOUNTANTS

Frederick C. Gardner
Giacamo Provenzano
James R. Schauman
Heather A. Thomas

INDEPENDENT AUDITOR'S REPORT

June 23, 2005

Members of the Village Council
Village of Merrill, Michigan

We have audited the accompanying financial statements of the governmental activities and the business-type activities of the Village of Merrill, as of and for the year ended February 28, 2005, as listed in the table of contents. These financial statements are the responsibility of the Village of Merrill's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards prescribed by the State Treasurer. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the business-type activities of the Village of Merrill as of February 28, 2005, and the respective changes in financial position and the cash flows of its proprietary fund types for the year then ended in conformity with generally accepted accounting principles and with applicable rules and regulations of the State Treasurer.

Members of the Village Council
Page Two
June 23, 2005

As described in Note 8, the Village has implemented a new financial reporting model, as required by the provisions of GASB Statement No.34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended and interpreted as of February 28, 2005.

The management's discussion and analysis and budgetary comparison are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consist principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The individual fund financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements of the Village of Merrill. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

The accompanying 2004 financial information was compiled by us, and our report thereon, dated May 6, 2004, stated we did not audit or review those financial and, accordingly, expressed no opinion or other form of assurance on them.

Gardner, Provenzano, Schauman & Thomas, P.C.

Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

VILLAGE OF MERRILL
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of the Village of Merrill's (Village) financial performance provides an overview of the Village's financial activities for the fiscal year ended February 28, 2005. This fiscal year, the Village implemented the Government Standards Board's (GASB) Statement No. 34. Since this is the first year of adoption, prior year comparison is not available. The comparison will be available in future years. As allowed by GASB 34 for phase three governments, the Village of Merrill did not recognize infrastructure assets retroactively. In addition, the Village has opted to display information for all funds without regard to the criteria for determination of major funds.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Village's basic financial statements. The Village's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements – The government-wide financial statements are designed to provide readers with a broad overview of the Village's finances, in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of the Village's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Village is improving or deteriorating.

The Statement of Activities presents information showing how the Village's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in the future fiscal periods.

Both of the government-wide financial statements distinguish between functions of the Village that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Village include general government, public safety, public works, highways and streets, sanitation, recreation, library and other equipment. The business-type activities include sewer services.

VILLAGE OF MERRILL
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Overview of the Financial Statements (continued)

Fund financial statements – A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Village, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Village can be divided into two categories, governmental and proprietary funds.

Governmental Funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Village maintains four governmental funds. Information is presented separately in the Governmental Fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances for the General, Major Street, Local Street, and Special Projects.

Proprietary Funds – The Village maintains two proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Village uses enterprise funds to account for its sewer operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among the Village's various functions. The Village uses its internal service funds to account for its equipment program. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

VILLAGE OF MERRILL
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Overview of the Financial Statements (continued)

Other Information – In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Village's budget.

GOVERNMENTAL-WIDE FINANCIAL ANALYSIS

Table 1	Government Activities	Business-type Activities	Total
Assets			
Current assets	\$ 537,894	\$ 275,179	\$ 813,073
Noncurrent assets	223,506	493,102	716,608
Total Assets	<u>761,400</u>	<u>768,281</u>	<u>1,529,681</u>
Liabilities			
Current liabilities	5,521	97	5,618
Noncurrent liabilities	8,936	-	8,936
Total Liabilities	<u>14,457</u>	<u>97</u>	<u>14,554</u>
Net Assets			
Investment in capital assets	223,506	493,102	716,608
Restricted	-	420,938	420,938
Unrestricted	523,437	(145,856)	377,581
Total Net Assets	<u>\$ 746,943</u>	<u>\$ 768,184</u>	<u>\$ 1,515,127</u>

As noted earlier, net assets may serve over time as a useful indicator of government's financial position. In the case of the Village, assets exceeded liabilities by \$1,515,127, as of February 28, 2005 for the total of Governmental and Business-type activities.

The largest portion of net assets (47%) reflects its investments in capital assets (e.g., land, land improvements, buildings, equipment and furniture, and vehicles). The Village uses these capital assets to provide service to citizens. Another portion of the Village's net assets (25%) reflects unrestricted net assets that may be used to meet the government's ongoing obligations. The remaining portion of the Village's net assets (28%) represents resources that are restricted for contributed capital.

VILLAGE OF MERRILL
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Overview of the Financial Statements (continued)

GOVERNMENTAL-WIDE FINANCIAL ANALYSIS (continued)

Table 2	Governmental Activities	Business-type Activities	Total
Revenues			
Program revenue			
Charges for services	\$ 62,782	\$ 56,097	\$ 118,879
Operating grants and contributions	76,849	-	76,849
Capital grants	7,590	-	7,590
General revenue			
Property taxes	178,859	-	178,859
State shared revenue	85,932	-	85,932
Unrestricted investment earnings	8,396	12,277	20,673
Gain on sale of capital assets	1,327	-	1,327
Other revenues	14,679		14,679
Transfers	10,000	(10,000)	-
Total Revenues	446,414	58,374	504,788
Program Expenses			
General government	119,959	-	119,959
Public safety	1,556	-	1,556
Public works	29,209	-	29,209
Highways and Streets	119,684	-	119,684
Sanitation	26,967	-	26,967
Recreation	28,294	-	28,294
Library	3,474	-	3,474
Other	3,398	-	3,398
Equipment	59,334	-	59,334
Sewer	-	67,977	67,977
Total Program Expenses	391,875	67,977	459,852
Change in Net Assets	54,539	(9,603)	44,936
Net Assets-Beginning	692,404	777,787	1,470,191
Net Assets-Ending	\$ 746,943	\$ 768,184	\$ 1,515,127

Governmental Activities

Governmental activities increased the net assets by \$54,539.

Business-type Activities

The Village operates a sewer treatment facility. This department operates from fees charged to the Village residents. Rates for this service are set to provide operations and maintenance. The Sewer Fund had a decrease in net assets of \$(9,603) as compared to the prior year decrease of \$(37,250). Significant transactions include a \$10,000 transfer to the Special Projects Fund for a new DPW building. Additionally, expenses were down from the prior year due to unexpected repairs required to a valve in the lift station expensed in fiscal year 2004.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

The focus of the Village's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Village's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the Village's governmental funds reported combined ending fund balances of \$468,699. Approximately 93% of this total amount constitutes unreserved fund balance.

For the fiscal year ended February 28, 2005 governmental fund balances changed as follows:

General Fund

The General Fund had an increase in fund balance of \$11,456. Significant reasons are:

- Property tax revenue increased by approximately \$7,000.
- Garbage collection revenue increased by \$23,352 due to the elimination of \$100 credit that was previously given to residents.

The two above mentioned increases were able to fund the following expenditure increases:

- General government expenditures increased from the prior year primarily due to preliminary work required to build a municipal water system.
- Recreation expenditures increased from the previous year due to increased wages.
- There was an increase of the transfer to the Special Projects Fund in the amount of \$15,000.

Major Street Fund

The Major Street Fund realized an increase in fund balance of \$21,056. Significant transactions are as follows:

- Additional funds were issued by the State of Michigan for M-46 maintenance.
- Partial payment for a salt shed in the amount of \$4,578 was made in this fund. The remainder of the cost of the salt shed was expensed in the Local Street fund.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS (continued)

Local Street Fund

The Local Street Fund had a decrease in fund balance of \$(31,905). This decrease was a budgeted decrease. Significant transactions are as follows:

- A major project was completed in this fiscal year. Currently no projects are planned in this fund.

Special Projects Fund

The Special Projects Fund had an increase in fund balance of \$54,328. Significant transactions are as follows:

- Transfers were made from the General Fund and the Sewer fund in the amounts of \$25,000 and \$10,000, respectively. These funds are being set aside to build a new DPW building.

Equipment Fund

The Equipment Fund had a decrease in fund balance of \$(7,250). Significant transactions are as follows:

- A dump truck was purchased in the amount of \$ 54,272.

General Fund Budgetary Highlights – The Uniform Budget Act of the State of Michigan requires that the local governmental council approve the original budget for the upcoming fiscal year prior to February 28, 2005, the end of the current fiscal year. Over the course of the year, the Merrill Village Council revises its budget to reflect changes in revenues and expenditures. For fiscal year 2004-05, the budget was amended February 21, 2005. A budgetary comparison schedule showing the Village of Merrill's original budget and final amended budget compared with actual amounts for revenue and expenditures is provided in required supplemental information of these financial statements.

VILLAGE OF MERRILL
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Final Budget vs. Original Budget

Significant changes to the general fund original expenditure budget were as follows:

An increase in the general government expenditure line item of \$21,356 is the result of expenses incurred for the proposed municipal water system. These monies will be reimbursed to the general fund when the project's grant/loan package is in place.

There was an increase in expenditures in the public works line item of \$13,898 due to a change in the manner that our new computer software was distributing fringe benefits.

There was an increase in expenditures in the park budget of \$8,555 due largely to increased equipment rental and equipment purchases. The cool summer lead to additional mowing and there was additional work done along the walking path.

Final Budget vs. Actual

Significant variances to the adjusted budget vs. actual expenditures:

In the general fund, under public works, the significant amount that is under the actual budget was revised to allow for fringe benefits disbursement to other funds. This correction was due to the way our new computer software posts fringe reimbursements.

Under sanitation, the expenditure is over-budgeted.

The variance in other general government is due mainly to extra expenditures incurred for the water project.

Capital Assets

The Village's investment in capital assets for its governmental activities and business-type activities were \$223,506 and \$493,102, respectively. These amounts are net of accumulated depreciation. This investment in capital assets includes land, land improvements, equipment and furniture, vehicles, and buildings. Significant capital assets acquired during the year include a salt shed, a dump truck and a tractor lawn mower. More detailed information about capital assets is presented in the notes to the financial statements.

VILLAGE OF MERRILL
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Final Budget vs. Actual (continued)

Debt Administration

At the end of the fiscal year, the Village had total debt of \$8,936. The debt consisted of amounts due to employees for accumulated sick leave at February 28, 2005.

Current Known Facts

The Village of Merrill has entered into a contract with Saginaw County Department of Public Works to build a municipal water system. A loan/grant package has been approved by Rural Development, 55% loan and 45% grant. The entire project is \$4,270,000. Construction is scheduled to begin in the spring of 2006.

Merrill Tool & Machine is adding 20,000 sq. feet to their existing building and adding equipment totaling \$2,550,000. This will increase our tax base. However, a tax abatement of 50% for 12 years has been approved by the Merrill Village Council effective April 11, 2005.

Request for Information

This report is designed to provide our stakeholders and taxpayers with a general overview of the Village of Merrill's finances. If you have questions about this report or need additional information, contact Village of Merrill, 148 W. Saginaw, Merrill, Michigan 48637.

BASIC FINANCIAL STATEMENTS

VILLAGE OF MERRILL
STATEMENT OF NET ASSETS
FEBRUARY 28, 2005

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<u>ASSETS</u>			
Current Assets			
Cash and investments	\$ 488,713	\$ 255,718	\$ 744,431
Accounts receivable	14,095	19,461	33,556
Taxes receivable	13,184	-	13,184
Due from other governmental units	21,902	-	21,902
Total Current Assets	<u>537,894</u>	<u>275,179</u>	<u>813,073</u>
Noncurrent Assets			
Net capital assets	<u>223,506</u>	<u>493,102</u>	<u>716,608</u>
Total Noncurrent Assets	<u>223,506</u>	<u>493,102</u>	<u>716,608</u>
Total Assets	<u>761,400</u>	<u>768,281</u>	<u>1,529,681</u>
<u>LIABILITIES</u>			
Current Liabilities			
Accounts payable	3,618	97	3,715
Accrued expenses	<u>1,903</u>	<u>-</u>	<u>1,903</u>
Total Current Liabilities	<u>5,521</u>	<u>97</u>	<u>5,618</u>
Noncurrent liabilities			
Due in more than one year	<u>8,936</u>	<u>-</u>	<u>8,936</u>
Total Noncurrent Liabilities	<u>8,936</u>	<u>-</u>	<u>8,936</u>
Total Liabilities	<u>14,457</u>	<u>97</u>	<u>14,554</u>
<u>NET ASSETS</u>			
Invested in capital assets	223,506	493,102	716,608
Restricted	-	420,938	420,938
Unrestricted	<u>523,437</u>	<u>(145,856)</u>	<u>377,581</u>
Total Net Assets	<u>\$ 746,943</u>	<u>\$ 768,184</u>	<u>\$ 1,515,127</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF MERRILL
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED FEBRUARY 28, 2005

Functions/Programs	Expenses	Program Revenues			Net(Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Governmental activities:							
General Government	\$ (119,959)	\$ 14,046	\$ -	\$ -	\$ (105,913)	\$ -	\$ (105,913)
Public Safety	(1,556)	-	-	-	(1,556)	-	(1,556)
Public Works	(29,209)	1,400	-	-	(27,809)	-	(27,809)
Highways & Streets	(119,684)	4,700	76,849	-	(38,135)	-	(38,135)
Sanitation	(26,967)	31,395	-	-	4,428	-	4,428
Recreation	(28,294)	6,530	-	7,590	(14,174)	-	(14,174)
Library	(3,474)	-	-	-	(3,474)	-	(3,474)
Other	(3,398)	-	-	-	(3,398)	-	(3,398)
Equipment	(59,334)	4,711	-	-	(54,623)	-	(54,623)
Total governmental activities	(391,875)	62,782	76,849	7,590	(244,654)	-	(244,654)
Business-type Activities:							
Sewer Fund	67,977	56,097	-	-	-	(11,880)	(11,880)
Total business-type activities	67,977	56,097	-	-	-	(11,880)	(11,880)
Total primary government	(323,898)	118,879	76,849	7,590	(244,654)	(11,880)	(256,534)
General Revenues:							
Property Taxes					178,859	-	178,859
State Shared Revenue					85,932	-	85,932
Unrestricted investment					8,396	12,277	20,673
Gain on Sale of Capital					1,327	-	1,327
Other revenues					14,679	-	14,679
Transfers					10,000	(10,000)	-
Total general revenues					299,193	2,277	301,470
Change in net assets					54,539	(9,603)	44,936
Net assets - beginning					692,404	777,787	1,470,191
Net assets - ending					\$ 746,943	\$ 768,184	\$ 1,515,127

The accompanying notes are an integral part of these financial statements.

VILLAGE OF MERRILL
GOVERNMENTAL FUNDS BALANCE SHEET
FEBRUARY 28, 2005

	General	Major	Local	Special Projects	Total Governmental Funds
<u>Assets</u>					
Cash	\$ 71,306	\$ 155,153	\$ 68,993	\$ 68,863	\$ 364,315
Investments	60,543	-	-	-	60,543
Taxes receivable	10,632	1,276	1,276	-	13,184
Accounts receivable	12,078	-	755	1,262	14,095
Due from State of Michigan	10,810	8,091	3,001	-	21,902
Total Assets	<u>\$ 165,369</u>	<u>\$ 164,520</u>	<u>\$ 74,025</u>	<u>\$ 70,125</u>	<u>\$ 474,039</u>
<u>Liabilities and Fund Equity</u>					
Liabilities					
Accounts Payable	3,437	-	-	-	3,437
Accrued wages	1,903	-	-	-	1,903
Total Liabilities	<u>5,340</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,340</u>
Fund Equity					
Unreserved	160,029	164,520	74,025	35,125	433,699
Designated	-	-	-	35,000	35,000
Total Fund Equity	<u>160,029</u>	<u>164,520</u>	<u>74,025</u>	<u>70,125</u>	<u>468,699</u>
Total Liabilities and Fund Equity	<u>\$ 165,369</u>	<u>\$ 164,520</u>	<u>\$ 74,025</u>	<u>\$ 70,125</u>	<u>\$ 474,039</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF MERRILL
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS
FEBRUARY 28, 2005

Fund balances of governmental funds	\$	468,699
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources; and therefore, are not reported in the funds.

Cost of the capital assets		394,626
Accumulated depreciation		(171,120)

Long-term liabilities are not due and payable in current period; and therefore, are not reported in the funds.

Compensated absences		(8,936)
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Internal service funds are used by management to charge the costs of fleet management to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement.

		63,674
Net assets of governmental activities	\$	<u>746,943</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF MERRILL
GOVERNMENTAL FUNDS STATEMENTS OF REVENUE
EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED FEBRUARY 28, 2005

	General	Major Street	Local Street	Special Projects	Total Governmental Funds
Revenue					
Taxes	\$ 144,069	\$ 17,397	\$ 17,393	\$ -	\$ 178,859
Intergovernmental revenues	85,932	59,406	17,443	-	162,781
Charges for services	58,518	-	-	-	58,518
Interest	5,027	1,556	797	136	7,516
Miscellaneous	27,429	-	4,700	7,590	39,719
Total Revenue	320,975	78,359	40,333	7,726	447,393
Expenditures					
General government	119,711	-	-	-	119,711
Public safety	1,556	-	-	-	1,556
Public Works	30,252	-	-	-	30,252
Highways and streets	14,448	52,725	97,660	-	164,833
Sanitation	26,967	-	-	-	26,967
Recreation	43,111	-	-	-	43,111
Library	3,474	-	-	-	3,474
Capital Outlay	-	4,578	4,578	-	9,156
Other expenses	-	-	-	3,398	3,398
Total Expenditures	239,519	57,303	102,238	3,398	402,458
Excess (Deficiency) of Revenues over Expenditures	81,456	21,056	(61,905)	4,328	44,935
Other Financing Sources (Uses)					
Operating transfers in	-	-	30,000	65,000	95,000
Operating transfers (out)	(70,000)	-	-	(15,000)	(85,000)
Total Other Financing Sources (Uses)	(70,000)	-	30,000	50,000	10,000
Excess (deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	11,456	21,056	(31,905)	54,328	54,935
Fund Balances, Beginning	148,573	143,464	105,930	15,797	413,764
Fund Balances, Ending	\$ 160,029	\$ 164,520	\$ 74,025	\$ 70,125	\$ 468,699

The accompanying notes are an integral part of these financial statements.

VILLAGE OF MERRILL
 RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT
 OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
 TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED FEBRUARY 28, 2005

Net change in fund balances --total governmental funds	\$ 54,935
Amounts reported for governmental activities in the statement of activities are different because:	
Capital assets used in governmental activities are not financial resources; and therefore, are not reported in the funds.	
Depreciation expense	(1,526)
Capital Outlay	9,156
In the statement of activities, certain expenses (compensated absences) are measured by the amounts earned during the year. The governmental funds measure the financial resources used (paid).	
Compensated absences	(776)
Internal service funds are used by management to charge the costs of fleet management to individual funds.	
The expenses and revenues of the internal service funds are included in governmental activities in the statement	(7,250)
Change in net assets of governmental activities	<u>\$ 54,539</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF MERRILL
 PROPRIETARY FUNDS
 STATEMENT OF NET ASSETS
 FEBRUARY 28, 2005

	Business-Type Activities Enterprise Fund	Governmental Activities- Internal Service Fund
	Sewer	Equipment
<u>Assets</u>		
Current assets:		
Cash	\$ 33,946	\$ 63,855
Investments	221,772	-
Accounts receivable	19,461	-
Total current assets	<u>275,179</u>	<u>63,855</u>
Noncurrent assets:		
Capital assets	1,084,545	254,639
Accumulated depreciation	<u>(591,443)</u>	<u>(158,992)</u>
Total noncurrent assets	<u>493,102</u>	<u>95,647</u>
Total Assets	<u><u>\$ 768,281</u></u>	<u><u>\$ 159,502</u></u>
<u>Liabilities and Net Assets</u>		
Current liabilities		
Accounts payable	\$ 97	\$ 181
Total Current Liabilities	<u>97</u>	<u>181</u>
Net Assets		
Investment in capital assets	493,102	95,647
Restricted	420,938	-
Unrestricted	<u>(145,856)</u>	<u>63,674</u>
Total Net Assets	<u>768,184</u>	<u>159,321</u>
Total Liabilities and Net Assets	<u><u>\$ 768,281</u></u>	<u><u>\$ 159,502</u></u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF MERRILL
 PROPRIETARY FUNDS
 STATEMENT OF REVENUE, EXPENSE AND
 CHANGES IN NET ASSETS
 FOR THE YEAR ENDED FEBRUARY 28, 2005

	Business-Type Activities <u>Enterprise Fund</u>	Governmental Activities- Internal <u>Service Fund</u>
Operating Revenues		
Charge for services	\$ 56,097	\$ 59,820
Operating Expenses		
Wage and benefits	23,976	18,776
Audit	1,183	1,030
Administrative charge	8,779	7,265
Supplies	53	2,903
Utilities	927	1,557
Insurance	1,062	5,541
Building rental	2,678	2,678
Equipment rental	4,445	-
Depreciation	21,311	15,091
Equipment repairs	950	4,038
Miscellaneous	2,613	10,398
Total Operating Expenses	<u>67,977</u>	<u>69,277</u>
Operating Loss	<u>(11,880)</u>	<u>(9,457)</u>
Nonoperating Revenues (Expenses)		
Interest earned	12,277	880
Gain (loss) on disposal of assets	-	1,327
Net Nonoperating Revenues	<u>12,277</u>	<u>2,207</u>
Net Income (Loss) before transfers out	397	(7,250)
Transfers out	<u>(10,000)</u>	<u>-</u>
Change in net assets	(9,603)	(7,250)
Net assets at beginning of year	777,787	166,571
Net assets at end of year	<u>\$ 768,184</u>	<u>\$ 159,321</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF MERRILL
 PROPRIETARY FUND
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED FEBRUARY 28, 2005

	Business-Type Activities Enterprise Fund	Governmental Activities- Internal Service Fund
Cash Flows From Operating Activities		
Receipts from customers	\$ 54,044	\$ -
Payments to suppliers	(6,697)	(25,286)
Payments to employees	(23,976)	(18,776)
Internal activity - Net payments to other funds	(25,902)	49,877
Other receipts (payments)	12,277	6,460
Net cash provided by (used in) operating activities	<u>9,746</u>	<u>12,275</u>
Cash Flows from Capital and Related Financing Activities		
Purchase of capital assets	-	(55,972)
Net cash used in capital and related financing activities	<u>-</u>	<u>(55,972)</u>
Net Increase (Decrease) in Cash and cash equivalents	9,746	(43,697)
Cash and cash equivalents - Beginning of year	245,972	107,552
Cash and cash equivalents - End of year	<u>\$ 255,718</u>	<u>\$ 63,855</u>
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities		
Increase (decrease) in Net Assets	\$ (9,603)	\$ (7,250)
Adjustments to reconcile operating income (loss) to net cash from operating activities		
Depreciation	21,311	15,091
Loss on disposal of assets	-	4,253
Changes in assets and liabilities		
Receivables	(2,059)	-
Accounts payable	97	181
Net Cash provided by (used in) operating activities	<u>\$ 9,746</u>	<u>\$ 12,275</u>

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

VILLAGE OF MERRILL
NOTES TO FINANCIAL STATEMENTS

NOTE 1--Description of Village Operations and Fund Types

The Village of Merrill, located in Saginaw County, Michigan, was incorporated as a general law village under the provisions of Act 3 of 1895, as amended. The Village operates under an elected Village Council to provide municipal services to approximately 782 residents.

The criteria established by NCGA for determining the various governmental organizations to be included in the reporting entity's financial statements include oversight responsibility, scope of public service, and special financial relationships. On this basis, the financial statements of certain other governmental organizations are not included in the financial statements of the Village. Educational services are provided through a local school district, which is a separate governmental entity; therefore, these services are not represented in the financial statements included herein. In addition, this report does not include the financial statements of the Merrill Public Library which operates autonomously under an intergovernmental service agreement.

The financial statements of the Village of Merrill are prepared with Generally Accepted Accounting Principles (GAAP). The Village reporting entity applies all relevant Government Accounting Standards Board (GASB) pronouncements. Proprietary funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails.

VILLAGE OF MERRILL
NOTES TO FINANCIAL STATEMENTS

NOTE 1--Description of Village Operations and Fund Types (continued)

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the governmental and business-type activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items that cannot be attributed directly to any one function are included among program revenues and are reported instead as general revenue.

Separate financial statements are provided for governmental funds and proprietary fund.

VILLAGE OF MERRILL
NOTES TO FINANCIAL STATEMENTS

NOTE 1--Description of Village Operations and Fund Types (continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Village considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures relating to compensated absences are recorded only when payment is due.

Property taxes and State-shared revenues are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Village.

VILLAGE OF MERRILL
NOTES TO FINANCIAL STATEMENTS

NOTE 1--Description of Village Operations and Fund Types (continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation
(continued)

A fund is defined as a fiscal and accounting entity with self-balancing set of accounts which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. The Village uses the following fund types:

Governmental Funds

General Fund--The General Fund is the general operating fund of the Village. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds--Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes.

Proprietary Funds

Enterprise Funds--Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises--where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Internal Service Funds--Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the Village on a cost-reimbursement basis.

VILLAGE OF MERRILL
NOTES TO FINANCIAL STATEMENTS

NOTE 1--Description of Village Operations and Fund Types (continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation
(continued)

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Village's governmental and proprietary funds. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for services.

Operating expenses for proprietary funds include the cost of source of supply, transmission and distribution maintenance, and administrative and general expenses, including depreciation and capital assets.

All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

When both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, then unrestricted resources as they are needed.

VILLAGE OF MERRILL
NOTES TO FINANCIAL STATEMENTS

NOTE 1--Description of Village Operations and Fund Types (continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation
(continued)

Cash

Cash includes cash on hand and demand deposits. The Village considers all short-term debt securities purchased with maturity of three months or less to be cash equivalents.

Investments

Investments include certificates of deposit and are stated at fair value.

Receivables

Receivables consist of all revenues earned at year-end but not yet received.

Inventories

Inventories, which are immaterial in amount, are not recognized as an asset in the Enterprise Funds. Supplies, which are also immaterial in amount, are treated as expenditures at the time of purchase in the Governmental Fund types.

Prepaid

Prepaid amounts consist of payments for which the Village will have a future benefit and will be used up at a date beyond the current year-end.

Capital Assets and Depreciation

Capital assets purchased or acquired with an original cost of \$5,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized.

Other costs incurred for repairs and maintenance are expensed as incurred. The Village owns infrastructure assets such as water and sewer systems and roads

VILLAGE OF MERRILL
NOTES TO FINANCIAL STATEMENTS

NOTE 1--Description of Village Operations and Fund Types (continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation
(continued)

and sidewalks. Depreciation on all assets is provided on the straight-line method over the following estimated useful lives:

Equipment and other	3-10 years
Vehicles	6 years
Buildings	50 years
Other equipment	5-12 years

The Village elected not to retroactively report Governmental Fund infrastructure assets, which is allowable under the provisions of GASB 34.

Accounts Payable

Accounts payable consist of items from which the Village benefited during the current fiscal year but has not yet paid.

Accrued Compensated Absences

Accumulated and unused sick leave at year end is recognized as a liability of the respective funds in which each employee's wages are reported. The liability is calculated based upon various labor terms. Total accrued sick leave at February 28, 2005, was \$8,936.

Budgets and Budgetary Accounting

The Village employs the following procedures in establishing budgetary data reflected in the financial statements:

- a. Several months prior to March 1 of each year, the Treasurer/Budget Director submits a budget for the ensuing fiscal year to the Council for review and possible revision.
- b. Prior to March 1 of each year, a public hearing is conducted to obtain taxpayers' comments.
- c. Prior to March 1 of each year, the budget is approved.
- d. Budget amounts as originally adopted are amended by the Village Council as necessary throughout the year.

VILLAGE OF MERRILL
NOTES TO FINANCIAL STATEMENTS

NOTE 2--Excess of Expenditures Over Appropriation in Budgetary Funds

Public Act 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the Village's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the Village for these budgetary funds were adopted at the functional level.

During the year ended February 28, 2005, the Village incurred expenditures in excess of the amounts appropriated as illustrated in the supplemental information.

NOTE 3--Investments and Deposits

The Village is authorized, by the State of Michigan, to deposit its funds in banks, savings and loan associations, or credit unions having a principal office in Michigan.

The Village is also authorized to invest in the following:

- a. direct bonds and obligations of the U.S. or agency or instrumentality.
- b. CDs, savings accounts with banks, savings and loan associations, or credit unions which are insured with the applicable federal agency,
- c. commercial paper - within three highest rate classifications by at least two rating services, maturing not later than 270 days,
- d. U.S. or agency repurchase agreements,
- e. bankers' acceptance of U.S. banks,
- f. mutual funds - investments which local unit can make directly.

All investments and deposits for the Village of Merrill are held at a single federally insured financial institution. The FDIC insures up to \$100,000 in demand deposits. However, separately named accounts of a governmental entity in a

VILLAGE OF MERRILL
NOTES TO FINANCIAL STATEMENTS

NOTE 3--Investments and Deposits (continued)

single financial institution may not necessarily be treated as separate deposits for purposes of applying the \$100,000 limits.

A summary of investments and deposits as of February 28, 2005, follows:

Insured	\$ 100,000
Collateralized	-
Uncollateralized uninsured	630,929
Total	<u>\$ 730,929</u>

NOTE 4--Property Taxes

Property taxes are levied each July 1 on the state equalized valuation of property located within the Village. Uncollected real property taxes are turned over to Saginaw County for collection. The County reimburses the Village 100% for the delinquent real taxes which is normally received in May or June. The amount of this reimbursement is recognized in the financial statements as taxes receivable. For the year ended February 28, 2005, the Village Council assessed 11.6928 mills for operations and 2.8063 mills for streets based on the taxable value of \$11,675,586, which represents both real and personal property taxes. The mills assessed were reduced for Headlee rollback.

NOTE 5--Defined Contribution Retirement Plan

The Village provides pension benefits for all eligible employees through the Village of Merrill Employees Retirement Pension Plan, a defined contribution plan. During the year ended February 28, 2005, the Village contributed 2% of annual compensation for eligible employees. During the year, contributions of \$2,288 were made on behalf of the covered employees by the Village of Merrill. Current year total payroll and covered payroll are \$136,141, and \$114,441, respectively.

VILLAGE OF MERRILL
NOTES TO FINANCIAL STATEMENTS

NOTE 6--Long-Term Debt

Long-Term Debt of the Village of Merrill consists solely of accrued compensated absences payable. Changes in long-term debt are summarized below:

Balance, February 28, 2004	\$ 8,160
Additions (Subtractions)	776
Balance, February 29, 2005	<u>\$ 8,936</u>

NOTE 7--Capital Assets

A summary of changes in capital assets follows:

	Balance March 1, 2004	Additions	Disposals	Balance February 28, 2005
GOVERNMENTAL ACTIVITIES				
Capital assets not subject to depreciation				
Land	\$ 97,416	\$ -	\$ -	\$ 97,416
Subtotal	<u>97,416</u>	<u>-</u>	<u>-</u>	<u>97,416</u>
Capital assets subject to depreciation				
Land Improvements	17,200	-	-	17,200
Buildings	27,742	9,156	-	36,898
Machinery & equipment	45,548	-	-	45,548
Vehicles	190,587	62,800	55,823	197,564
Subtotal	<u>281,077</u>	<u>71,956</u>	<u>55,823</u>	<u>297,210</u>
Accumulated Depreciation				
Land Improvements	6,550	760	-	7,310
Buildings	7,605	1,150	-	8,755
Machinery & equipment	42,793	1,316	-	44,109
Vehicles	142,297	15,028	46,379	110,946
Subtotal	<u>199,245</u>	<u>18,254</u>	<u>46,379</u>	<u>171,120</u>
Net capital assets being depreciated	<u>81,832</u>	<u>53,702</u>	<u>9,444</u>	<u>126,090</u>
Net governmental capital assets	<u>\$ 179,248</u>	<u>\$ 53,702</u>	<u>\$ 9,444</u>	<u>\$ 223,506</u>

VILLAGE OF MERRILL
NOTES TO FINANCIAL STATEMENTS

NOTE 7--Capital Assets (continued)

	Balance March 1, 2004	Additions	Disposals	Balance February 28, 2005
BUSINESS-TYPE ACTIVITIES				
Capital assets not subject to depreciation				
Land	\$ 22,442	\$ -	\$ -	\$ 22,442
Subtotal	<u>22,442</u>	<u>-</u>	<u>-</u>	<u>22,442</u>
Capital assets subject to depreciation				
Buildings	164,644	-	-	164,644
Collection systems	868,891	-	-	868,891
Machinery & equipment	36,700	-	8,132	28,568
Subtotal	<u>1,070,235</u>	<u>-</u>	<u>8,132</u>	<u>1,062,103</u>
Accumulated Depreciation				
Buildings	103,756	2,822	-	106,578
Collection systems	442,583	16,625	-	459,208
Machinery & equipment	31,927	1,862	8,132	25,657
Subtotal	<u>578,266</u>	<u>21,309</u>	<u>8,132</u>	<u>591,443</u>
Net capital assets being depreciated	<u>491,969</u>	<u>(21,309)</u>	<u>-</u>	<u>470,660</u>
Net Business-type capital assets	<u>\$ 514,411</u>	<u>\$ (21,309)</u>	<u>\$ -</u>	<u>\$ 493,102</u>

Depreciation expense was charged to program of the primary government as follows:

Governmental activities:

General government	\$ 248
Public works	518
Recreation	760
Equipment	16,728
Total governmental activities	<u>18,254</u>

Business-type activities:

Sewer	\$ 21,309
Total business-type activities	<u>21,309</u>

VILLAGE OF MERRILL
NOTES TO FINANCIAL STATEMENTS

NOTE 8--GASB Pronouncements Adoption

As of and for the year ended February 28, 2005, the Village implemented the following Governmental Accounting Standards Board pronouncements:

Statements

- *No.34 – Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*
- *No.37 – Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*
- *No.38 – Certain Financial Statement Note Disclosures*

Interpretations

- *No.6 – Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.*

The above pronouncements are all related to the new financial reporting requirements for all state and local governments. These pronouncements are scheduled for a phased implementation (based on the size of the government) through fiscal years ending in 2005.

The more significant of the changes required by the new standards include:

Basic financial statements that include:

- Government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting;
- Fund financial statements, consisting of a series of statements that focus on a government's major governmental funds and enterprise funds;
- Schedules to reconcile the fund financial statements to the government-wide financial statements;
- Budgetary schedules;
- Notes to the basic financial statements

VILLAGE OF MERRILL
NOTES TO FINANCIAL STATEMENTS

NOTE 8--GASB Pronouncements Adoption (continued)

As a result of implementing the GASB 34 statement, the following restatements were made to the beginning balance of net assets:

As of March 1, 2004	
Fund Balance-Governmental Activities	\$ 413,764
Capital Assets	130,830
Accumulated Depreciation	(10,601)
Long-term Debt	(8,160)
Addition of Internal Service Fund	166,571
Net Assets-Governmental Activities	<u>\$ 692,404</u>

NOTE 9--Risk Management

The Village is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Since 1992, the Village Council has participated in the Michigan Municipal Worker's Compensation Self Insurer's Fund (SIF), a public entity risk pool currently operating as a common risk management program for Municipalities in the State of Michigan. The Village pays an annual premium to SIF for its worker's compensation coverage. The SIF is self-sustaining through member premiums.

In the event of unusually high claims, the SIP has the authority to bill the Village retroactively. The Village continues to carry commercial insurance for other risks of loss, including employee health and accident insurance.

NOTE 10--Special Projects Fund Balance

The Special Projects Fund Balance has been designated at February 28, 2005 for the future construction of a new DPW building.

VILLAGE OF MERRILL
NOTES TO FINANCIAL STATEMENTS

NOTE 11--Proprietary Fund Reclassification

The comparative financial statements for the year ended February 29, 2004, for the Sewer Fund have been reclassified to reflect GASB Statements 33 and 34 adjustments.

NOTE 12—Inter-fund Transfers

The composition of inter-fund transfers as of February 28, 2005 is as follows:

Transfers In/Out			
Transfers In		Transfers Out	
Local Street	\$ 15,000	General	\$ 15,000
Local Street	15,000	Special projects	15,000
Special projects	10,000	Sewer	10,000
Special projects	55,000	General	55,000
	<u>\$ 95,000</u>		<u>\$ 95,000</u>

REQUIRED SUPPLEMENTAL INFORMATION

Village of Merrill
Budgetary Comparison
General Fund
For the Year Ended February 28, 2005

	General Fund		
	Original Budget	Final Budget	Actual Results
Revenues			
Taxes	\$ 138,461	\$ 145,317	\$ 144,069
Intergovernmental revenues	87,023	85,785	85,932
Charges for services	30,000	31,455	31,395
Interest	2,807	5,083	5,027
Miscellaneous	21,123	25,465	27,429
Reimbursements	22,042	22,930	27,123
Total Revenues	<u>301,456</u>	<u>316,035</u>	<u>320,975</u>
Expenditures			
Current			
General government	85,575	106,931	119,711
Public safety	3,250	2,558	1,556
Public works	44,251	58,149	30,252
Highways and streets	16,600	14,357	14,448
Sanitation	30,000	31,327	26,967
Recreation	30,350	38,905	43,111
Library	3,800	6,444	3,474
Capital outlay	6,000	2,918	-
Total Expenditures	<u>219,826</u>	<u>261,589</u>	<u>239,519</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>81,630</u>	<u>54,446</u>	<u>81,456</u>
Other Financing Sources (Uses)			
Operating transfers out	<u>(70,000)</u>	<u>(70,000)</u>	<u>(70,000)</u>
Total Other Financing Sources (Uses)	<u>(70,000)</u>	<u>(70,000)</u>	<u>(70,000)</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures	11,630	(15,554)	11,456
Fund Balance, Beginning	148,573	148,573	148,573
Fund Balance, Ending	<u>\$ 160,203</u>	<u>\$ 133,019</u>	<u>\$ 160,029</u>

OTHER SUPPLEMENTAL INFORMATION

VILLAGE OF MERRILL
GENERAL FUND

VILLAGE OF MERRILL
GENERAL FUND
COMPARATIVE BALANCE SHEETS
FEBRUARY 28, 2005 AND FEBRUARY 29, 2004

<u>Assets</u>	<u>2005</u>	<u>2004</u>
Cash	\$ 71,306	\$ 67,239
Investments	60,543	57,330
Taxes receivable	10,632	11,386
Accounts receivable	12,078	3,054
Due from State of Michigan	10,810	9,564
Total Assets	<u>\$ 165,369</u>	<u>\$ 148,573</u>
 <u>Liabilities and Fund Balance</u>		
Liabilities		
Accounts payable	\$ 3,437	\$ -
Accrued wages	1,903	
Total Liabilities	<u>5,340</u>	<u>-</u>
Fund Balance		
Unreserved	<u>160,029</u>	<u>148,573</u>
Total Fund Balance	160,029	148,573
Total Liabilities and Fund Balance	<u>\$ 165,369</u>	<u>\$ 148,573</u>

See accompanying notes.

VILLAGE OF MERRILL
GENERAL FUND
STATEMENT OF REVENUES--BUDGET AND ACTUAL
FOR THE YEAR ENDED FEBRUARY 28, 2005
(With Comparative Actual Amounts for the Year Ended February 29, 2004)

	2005			2004
	<u>Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>	<u>Actual</u>
Revenues				
Taxes				
Property taxes	\$ 145,317	\$ 144,069	\$ (1,248)	\$ 137,090
Intergovernmental revenues				
Sales tax	84,764	84,911	147	87,385
Liquor license	1,021	1,021	-	1,023
Charges for services				
Garbage collection	31,455	31,395	(60)	8,043
Reimbursements	22,930	27,123	4,193	22,125
Miscellaneous				
Park agreements	6,510	6,530	20	5,185
Interest earned	5,083	5,027	(56)	1,933
Building rental	7,498	7,498	-	7,498
Miscellaneous	11,457	13,401	1,944	10,959
Sale of assets	-	-	-	14,220
Total Revenues	<u>\$ 316,035</u>	<u>\$ 320,975</u>	<u>\$ 4,940</u>	<u>\$ 295,461</u>

See accompanying notes.

VILLAGE OF MERRILL
GENERAL FUND
STATEMENT OF EXPENDITURES--BUDGET AND ACTUAL
FOR THE YEAR ENDED FEBRUARY 28, 2005
(With Comparative Actual Amounts for the Year Ended February 29, 2004)

	2005			2004
	Budget	Actual	Over (Under) Budget	Actual
Expenditures				
General government				
Council wages and benefits	\$ 7,249	\$ 8,929	\$ 1,680	\$ 7,500
Office Manager	26,964	28,152	1,188	30,300
Elections	460	460	-	298
Clerk	1,200	1,152	(48)	1,400
Treasurer	8,118	8,253	135	7,597
Accounting	1,183	1,183	-	1,382
Legal	9,175	11,745	2,570	523
Planning commission	1,158	2,542	1,384	5,130
Inspection department	3,367	3,534	167	5,955
Insurance	6,524	6,524	-	7,560
Utilities	3,720	3,729	9	3,088
Other general government	37,813	43,508	5,695	22,323
Total General Government	<u>106,931</u>	<u>119,711</u>	<u>12,780</u>	<u>93,056</u>
Public Safety				
Wages and benefits	883	-	(883)	-
Supplies	50	50	-	114
Miscellaneous	1,043	1,121	78	1,572
Equipment maintenance	582	385	(197)	1,373
Total Public Safety	<u>2,558</u>	<u>1,556</u>	<u>(1,002)</u>	<u>3,059</u>
Public Works				
Wages and benefits	47,411	19,422	(27,989)	27,733
Supplies	2,933	2,933	-	319
Equipment rental	2,245	2,337	92	1,255
Other	5,560	5,560	-	2,684
Total Public Works	<u>58,149</u>	<u>30,252</u>	<u>(27,897)</u>	<u>31,991</u>
Highways and Streets				
Street lights	13,605	12,475	(1,130)	12,651
Traffic lights	752	1,973	1,221	1,964
Total Highways and Streets	<u>14,357</u>	<u>14,448</u>	<u>91</u>	<u>14,615</u>

See accompanying notes.

VILLAGE OF MERRILL
GENERAL FUND
STATEMENT OF EXPENDITURES--BUDGET AND ACTUAL
FOR THE YEAR ENDED FEBRUARY 28, 2005
(With Comparative Actual Amounts for the Year Ended February 29, 2004)

	2005			2004
	Budget	Actual	Over (Under) Budget	Actual
Expenditures				
Sanitation	<u>31,327</u>	<u>26,967</u>	<u>(4,360)</u>	<u>25,584</u>
Recreation				
Wages and benefits	16,353	17,856	1,503	14,114
Building maintenance	60	60	-	153
Operating supplies	2,457	2,457	-	1,276
Insurance	1,136	1,136	-	718
Utilities	800	751	(49)	517
Miscellaneous	2,384	5,274	2,890	1,326
Equipment rental	<u>15,715</u>	<u>15,577</u>	<u>(138)</u>	<u>12,807</u>
Total Recreation	<u>38,905</u>	<u>43,111</u>	<u>4,206</u>	<u>30,911</u>
Library				
Wages	-	-	-	42
Building maintenance	1,000	-	(1,000)	847
Insurance	3,474	3,474	-	3,656
Utilities	<u>1,970</u>	<u>-</u>	<u>(1,970)</u>	<u>683</u>
Total Library	<u>6,444</u>	<u>3,474</u>	<u>(2,970)</u>	<u>5,228</u>
Capital Outlay				
General government	28	-	(28)	2,714
Public works	<u>2,890</u>	<u>-</u>	<u>(2,890)</u>	<u>2,519</u>
Total Capital Outlay	<u>2,918</u>	<u>-</u>	<u>(2,918)</u>	<u>5,233</u>
Total Expenditures	<u>261,589</u>	<u>239,519</u>	<u>(22,070)</u>	<u>209,677</u>
Other Financing Uses				
Operating transfers out				
Special projects	55,000	55,000	-	30,000
Local street	<u>15,000</u>	<u>15,000</u>	<u>-</u>	<u>15,000</u>
Total Other Financing Uses	<u>70,000</u>	<u>70,000</u>	<u>-</u>	<u>45,000</u>
Total Expenditures and Other Financing Uses	<u>\$ 331,589</u>	<u>\$ 309,519</u>	<u>\$ (22,070)</u>	<u>\$ 254,677</u>

See accompanying notes.

VILLAGE OF MERRILL
SPECIAL REVENUE FUNDS

Major Street Fund

Local Street Fund

Special Projects Fund

VILLAGE OF MERRILL
MAJOR STREET FUND
COMPARATIVE BALANCE SHEETS
FEBRUARY 28, 2005 AND FEBRUARY 29, 2004

<u>Assets</u>			
		2005	2004
Cash	\$	155,153	\$ 133,612
Taxes receivable		1,276	1,359
Due from State of Michigan		8,091	8,493
Total Assets	\$	<u>164,520</u>	<u>\$ 143,464</u>
<u>Fund Balance</u>			
Fund Balance			
Unreserved		164,520	143,464
Total Liabilities and Fund Balance	\$	<u>164,520</u>	<u>\$ 143,464</u>

See accompanying notes.

VILLAGE OF MERRILL
MAJOR STREET FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE--BUDGET AND ACTUAL
FOR THE YEAR ENDED FEBRUARY 28, 2005
(With Comparative Actual Amounts for the Year Ended February 29, 2004)

	2005			2004
	Budget	Actual	Over (Under) Budget	Actual
Revenues				
Taxes	\$ 17,438	\$ 17,397	\$ (41)	\$ 16,451
Intergovernmental revenues				
State of Michigan gas and weight	46,102	47,070	968	45,713
State trunkline maintenance	12,336	12,336	-	3,905
Interest	1,478	1,556	78	999
Miscellaneous	87	-	(87)	-
Total Revenues	<u>77,441</u>	<u>78,359</u>	<u>918</u>	<u>67,068</u>
Expenditures				
Trunkline maintenance				
Wages and benefits	5,829	8,373	2,544	7,817
Equipment rental	7,115	7,534	419	7,586
Materials	821	821	-	-
Preservation				
Wages and benefits	8,251	12,413	4,162	11,498
Equipment rental	6,512	6,715	203	6,283
Materials	1,246	1,246	-	2,090
Snow and ice control				
Wages and benefits	2,516	4,794	2,278	6,906
Equipment rental	2,845	3,685	840	5,195
Materials	915	915	-	499
Administration and Record Keeping				
Accounting	412	412	-	503
Administrative reimbursement	2,906	2,906	-	2,906
Building rent	1,071	1,071	-	1,071
Insurance	835	835	-	600
Miscellaneous	1,744	1,005	(739)	-
Capital outlay	4,577	4,578	1	-
Total Expenditures	<u>47,595</u>	<u>57,303</u>	<u>9,708</u>	<u>52,954</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>29,846</u>	<u>21,056</u>	<u>(8,790)</u>	<u>14,114</u>
Fund Balance, Beginning	<u>143,464</u>	<u>143,464</u>	<u>-</u>	<u>129,350</u>
Fund Balance, Ending	<u>\$ 173,310</u>	<u>\$ 164,520</u>	<u>\$ (8,790)</u>	<u>\$ 143,464</u>

See accompanying notes.

VILLAGE OF MERRILL
LOCAL STREET FUND
COMPARATIVE BALANCE SHEETS
FEBRUARY 28, 2005 AND FEBRUARY 29, 2004

<u>Assets</u>	<u>2005</u>	<u>2004</u>
Cash	\$ 68,993	\$ 98,177
Taxes receivable	1,276	1,359
Accounts receivable	755	3,250
Due from State of Michigan	3,001	3,144
Total Assets	<u>\$ 74,025</u>	<u>\$ 105,930</u>
<u>Fund Balance</u>		
Fund Balance		
Unreserved	74,025	105,930
Total Liabilities and Fund Balance	<u>\$ 74,025</u>	<u>\$ 105,930</u>

See accompanying notes.

VILLAGE OF MERRILL
LOCAL STREET FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE--BUDGET AND ACTUAL
FOR THE YEAR ENDED FEBRUARY 28, 2005
(With Comparative Actual Amounts for the Year Ended February 29, 2004)

	2005			2004
	Budget	Actual	Over (Under) Budget	Actual
Revenues				
Taxes	\$ 17,438	\$ 17,393	\$ (45)	\$ 16,451
Intergovernmental revenues				
State of Michigan	16,302	17,443	1,141	16,876
Miscellaneous	-	4,700	4,700	1,075
Interest	859	797	(62)	916
Total Revenues	<u>34,599</u>	<u>40,333</u>	<u>5,734</u>	<u>35,318</u>
Expenditures				
Preservation				
Salaries and wages	57,781	62,112	4,331	58,969
Equipment rental	16,300	16,285	(15)	13,779
Materials	1,926	1,926	-	2,385
Snow and ice control				
Salaries and wages	853	3,673	2,820	4,736
Equipment rental	2,418	2,976	558	2,991
Materials	915	915	-	566
Administration and Record Keeping				
Accounting	412	412	-	503
Insurance	1,121	1,121	-	500
Administrative reimbursement	2,906	2,906	-	2,906
Building rent	1,071	1,071	-	1,071
Driveway approaches	435	2,323	1,888	9,405
Miscellaneous	1,945	1,940	(5)	-
Capital outlay	4,578	4,578	-	-
Total Expenditures	<u>92,661</u>	<u>102,238</u>	<u>9,577</u>	<u>97,811</u>
Excess (Deficiency) of Revenues Over Expenditures	(58,062)	(61,905)	(3,843)	(62,493)
Other Financing Sources				
Operating transfers in	<u>30,000</u>	<u>30,000</u>	<u>-</u>	<u>30,000</u>
Excess(Deficiency) of Revenues and Other Financing Sources Over Expenditures	<u>(28,062)</u>	<u>(31,905)</u>	<u>(3,843)</u>	<u>(32,493)</u>
Fund Balance, Beginning	<u>105,930</u>	<u>105,930</u>	<u>-</u>	<u>138,423</u>
Fund Balance, Ending	<u>\$ 77,868</u>	<u>\$ 74,025</u>	<u>\$ (3,843)</u>	<u>\$ 105,930</u>

See accompanying notes.

VILLAGE OF MERRILL
SPECIAL PROJECTS FUND
COMPARATIVE BALANCE SHEETS
FEBRUARY 28, 2005 AND FEBRUARY 29, 2004

<u>Assets</u>		
	2005	2004
Cash	\$ 68,863	\$ 8,899
Accounts receivable	1,262	6,898
Total Assets	<u>\$ 70,125</u>	<u>\$ 15,797</u>
 <u>Fund Balance</u>		
Fund Balance		
Unreserved	\$ 35,125	\$ 15,797
Designated	35,000	-
Total Liabilities and Fund Balance	<u>\$ 70,125</u>	<u>\$ 15,797</u>

See accompanying notes.

VILLAGE OF MERRILL
SPECIAL PROJECTS FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE--BUDGET AND ACTUAL
FOR THE YEAR ENDED FEBRUARY 28, 2005
(With Comparative Actual Amounts for the Year Ended February 29, 2004)

	2005			2004
	Budget	Actual	Over (Under) Budget	Actual
Revenues				
Grants	\$ -	\$ 7,590	\$ 7,590	\$ 70,438
Reimbursements	-	-	-	780
Interest Earned	7,743	136	(7,607)	808
Total Revenues	<u>7,743</u>	<u>7,726</u>	<u>(17)</u>	<u>72,026</u>
Expenditures				
Sidewalks	-	3,189	3,189	3,459
Park plan	-	-	-	161,799
Water study	209	209	-	27,067
Total Expenditures	<u>209</u>	<u>3,398</u>	<u>3,189</u>	<u>192,325</u>
Excess (Deficiency) of Revenues Over				
Expenditures	<u>7,534</u>	<u>4,328</u>	<u>(3,206)</u>	<u>(120,299)</u>
Other Financing Sources (Uses)				
Operating transfers in	65,000	65,000	-	30,000
Operating transfers out	(15,000)	(15,000)	-	(15,000)
Total Other Financing Sources (Uses)	<u>50,000</u>	<u>50,000</u>	<u>-</u>	<u>15,000</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and other Financing Uses	57,534	54,328	(3,206)	(105,299)
Fund Balance, Beginning	<u>15,797</u>	<u>15,797</u>	<u>-</u>	<u>121,096</u>
Fund Balance, Ending	<u>\$ 73,331</u>	<u>\$ 70,125</u>	<u>\$ (3,206)</u>	<u>\$ 15,797</u>

See accompanying notes.

VILLAGE OF MERRILL
ENTERPRISE FUND

Sewer Fund

VILLAGE OF MERRILL
SEWER FUND
COMPARATIVE BALANCE SHEETS
FEBRUARY 28, 2005 AND FEBRUARY 29, 2004

<u>Assets</u>		
Current assets:	2005	2004
Cash	\$ 33,946	\$ 35,902
Investments	221,772	210,070
Accounts receivable	19,461	17,404
Total current asset	<u>275,179</u>	<u>263,376</u>
Noncurrent assets:		
Capital Assets	1,084,545	1,092,677
Accumulated depreciation	<u>(591,443)</u>	<u>(578,266)</u>
Total noncurrent assets	493,102	514,411
Total Assets	<u>\$ 768,281</u>	<u>\$ 777,787</u>
 <u>Liabilities and Net assets</u>		
Liabilities		
Accounts payable	\$ 97	\$ -
Total Liabilities	<u>97</u>	<u>-</u>
Net Assets		
Investment in capital assets	493,102	514,411
Restricted	420,938	437,224
Unrestricted	<u>(145,856)</u>	<u>(173,848)</u>
Total Net assets	768,184	777,787
Total Liabilities and Net Assets	<u>\$ 768,281</u>	<u>\$ 777,787</u>

See accompanying notes.

VILLAGE OF MERRILL
SEWER FUND
COMPARATIVE STATEMENTS OF REVENUES AND EXPENSES
FOR THE YEARS ENDED FEBRUARY 28, 2005 AND FEBRUARY 29, 2004

	<u>2005</u>	<u>2004</u>
Operating Revenues		
Charge for services	\$ 56,097	\$ 47,625
Operating Expenses		
Wage and benefits	23,976	22,378
Audit	1,183	1,382
Administrative charge	8,779	10,090
Supplies	53	1,015
Utilities	927	741
Insurance	1,062	675
Building rental	2,678	2,678
Equipment rental	4,445	5,227
Depreciation	21,311	22,309
Equipment repairs	950	16,921
Miscellaneous	2,613	8,105
Total Operating Expenses	<u>67,977</u>	<u>91,521</u>
Operating Loss	<u>(11,880)</u>	<u>(43,896)</u>
Nonoperating Revenues (Expenses)		
Interest earned	12,277	6,646
Net Nonoperating Revenues	<u>12,277</u>	<u>6,646</u>
Net Income (Loss) before transfers out	397	(37,250)
Transfers out	<u>(10,000)</u>	<u>-</u>
Change in net assets	(9,603)	(37,250)
Net assets at beginning of year	777,787	815,037
Net assets at end of year	<u>\$ 768,184</u>	<u>\$ 777,787</u>

See accompanying notes.

VILLAGE OF MERRILL
SEWER FUND
COMPARATIVE STATEMENTS OF CHANGES IN FUND EQUITY
FOR THE YEARS ENDED FEBRUARY 28, 2005 AND FEBRUARY 29, 2004

	<u>Retained Earnings</u>	<u>Contributed Capital</u>	<u>Fund Equity</u>
Balance at February 29, 2004	<u>\$ 340,563</u>	<u>\$ 437,224</u>	<u>\$ 777,787</u>
Net Income (Loss)	<u>6,683</u>	<u>(16,286)</u>	<u>(9,603)</u>
Balance at February 28, 2005	<u><u>\$ 347,246</u></u>	<u><u>\$ 420,938</u></u>	<u><u>\$ 768,184</u></u>

See accompanying notes.

VILLAGE OF MERRILL
SEWER FUND
COMPARATIVE STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED FEBRUARY 28, 2005 AND FEBRUARY 29, 2004

	<u>2004</u>	<u>2003</u>
Cash Flows From Operating Activities		
Net Income (Loss)	\$ (9,603)	\$ (37,250)
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	21,311	22,309
Decrease (increase) in Receivables	(2,059)	(3,155)
Increase (decrease) in Accounts payable	<u>97</u>	<u>(56)</u>
Net Cash Provided by Operations	<u>9,746</u>	<u>(18,152)</u>
Cash Flows From Investing Activities		
(Increase) decrease in Acquisition of equipment	<u>-</u>	<u>(1,687)</u>
Net Cash Provided by Investing Activities	<u>-</u>	<u>(1,687)</u>
Net Increase in Cash	9,746	(19,839)
Cash and Cash Equivalents, Beginning	245,972	265,811
Cash and Cash Equivalents, Ending	<u>\$ 255,718</u>	<u>\$ 245,972</u>

See accompanying notes.

VILLAGE OF MERRILL
INTERNAL SERVICE FUND

Equipment Fund

VILLAGE OF MERRILL
EQUIPMENT FUND
COMPARATIVE BALANCE SHEETS
FEBRUARY 28, 2005 AND FEBRUARY 29, 2004

<u>Assets</u>		
	2005	2004
Cash	\$ 63,855	\$ 107,552
Total current assets	63,855	107,552
Noncurrent assets:		
Capital assets	254,639	247,663
Accumulated depreciation	(158,992)	(188,644)
Total capital assets	95,647	59,019
Total Assets	\$ 159,502	\$ 166,571
 <u>Liabilities and Net Assets</u>		
Liabilities		
Accounts payable	\$ 181	\$ -
Total Liabilities	\$ 181	\$ -
Net Assets		
Investment in capital assets	95,647	59,019
Unrestricted	63,674	107,552
Total Net Assets	159,321	166,571
Total Liabilities and Net Assets	\$ 159,502	\$ 166,571

See accompanying notes.

VILLAGE OF MERRILL
EQUIPMENT FUND
COMPARATIVE STATEMENTS OF REVENUES AND EXPENSES
AND CHANGES IN RETAINED EARNINGS
FOR THE YEARS ENDED FEBRUARY 28, 2005 AND FEBRUARY 29, 2004

	<u>2005</u>	<u>2004</u>
Operating Revenues		
Charge for services		
General Fund	\$ 17,852	\$ 18,064
Major Street Fund	18,020	19,058
Local Street Fund	19,305	21,744
Sewer Fund	4,643	4,735
Total Operating Revenues	<u>59,820</u>	<u>63,601</u>
Operating Expenses		
Wages and benefits	18,776	16,610
Audit	1,030	1,256
Supplies	2,903	6,693
Insurance	5,541	4,683
Repairs and maintenance	4,038	3,503
Depreciation	15,091	15,604
Building rent	2,678	2,678
Administrative reimbursement	7,265	7,265
Utilities	1,557	1,154
Miscellaneous	10,398	5,635
Total Operating Expenses	<u>69,277</u>	<u>65,081</u>
Operating Profit (Loss)	<u>(9,457)</u>	<u>(1,480)</u>
Non-operating Revenues (Expenses)		
Gain (loss) on disposal of assets	1,327	-
Interest earned	880	731
Total Nonoperating Revenues	<u>2,207</u>	<u>731</u>
Net Income (Loss)	(7,250)	(749)
Net Assets, Beginning	166,571	167,320
Net Assets, Ending	<u>\$ 159,321</u>	<u>\$ 166,571</u>

See accompanying notes.

VILLAGE OF MERRILL
EQUIPMENT FUND
COMPARATIVE STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED FEBRUARY 28, 2005 AND FEBRUARY 29, 2004

	<u>2005</u>	<u>2004</u>
Cash Flows From Operating Activities		
Net Income (Loss)	\$ (7,250)	\$ (749)
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	15,091	15,604
Gain on sale of assets	4,253	
Increase (decrease) in Accounts payable	<u>181</u>	<u>(644)</u>
Net Cash Provided (Used) by Operating Activities	<u>12,275</u>	<u>14,211</u>
Cash Flows From Investing Activities		
Acquisition of equipment	<u>(55,972)</u>	<u>(333)</u>
Net Cash Provided (Used) by Investing Activities	<u>(55,972)</u>	<u>(333)</u>
Net Increase (Decrease) in Cash	(43,697)	13,878
Cash and Cash Equivalents, Beginning	107,552	93,674
Cash and Cash Equivalents, Ending	<u>\$ 63,855</u>	<u>\$ 107,552</u>

See accompanying notes.



Gardner | Provenzano Schauman & Thomas

CERTIFIED PUBLIC ACCOUNTANTS

Frederick C. Gardner
Giacamo Provenzano
James R. Schauman
Heather A. Thomas

June 23, 2005

Members of the Village Council
Merrill, Michigan

In planning and performing our audit of the financial statements of Village of Merrill for the year ended February 28, 2005, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control.

During the course of our audit, we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. They are as follows:

Financial Statements

We noted the Council is only given cash balances at monthly board meetings. We believe that in order for the Council to make sound financial decisions and to provide fiscal oversight, the Council should receive financial statements on a monthly basis.

We understand that management is working with your software company in order to provide the financial statements that would be most meaningful to the Village Council.

Condition of the financial Records

We noted that at the beginning of audit fieldwork the financial records were not in auditable condition. We spent several days with accounting personnel in order to "clean up" the records and determine the cause of the records not in auditable condition. We determined that the change in software and change in month end procedures were two of the major reasons that the records were not in order.

Members of the Village Council
June 23, 2005
Page Two

We have worked with management to develop a draft month end checklist to assist with determining that, among other things, the following are completed:

- All funds are in balance.
- Audit entries have been made from the previous audit.
- Cash on the balance sheet agrees with the bank reconciliation.
- Fringe benefits have been allocated
- Payroll taxes have been allocated
- Accounts receivable detail agrees with the financial statements.

We believe this draft checklist is a place to start and should be updated as needed as the year progresses.

Budgets

It appeared as though budget amendments were made based upon general ledger activity as it had been posted through out the year. Based on this procedure, several accounts were amended significantly without investigation as the cause for the change from the original budget. Audit procedures found that some significant amendments should not have been made.

We suggest that all significant proposed budget line item adjustments be investigated for legitimacy before the budget is amended.

In addition, we found that some of the budgets for certain funds were not mathematically accurate.

We suggest that after the budget is prepared, the Treasurer run an adding machine tape to ensure the totals are correct.

We will review the status of these comments during our next audit engagement. We have already discussed these comments with the Office Manager and will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Gardner, Provenzano; Shauman & Thomas P.C.

Certified Public Accountants